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ABSTRACT

This paper outlines the major issues to be considered, and the tasks to be undertaken, by the Advisory Committee on Student Financial Assistance's Subcommittee on Need Analysis and Delivery System. In particular, the subcommittee's plans to address the following three areas are described: (1) opportunities for further simplification and integration of federal need analysis and program eligibility models; (2) the feasibility of excluding certain disadvantaged subpopulations from Federal need analysis entirely and streamlining annual reapplication processes for all students; and (3) monitoring progress toward implementing simplified Federal need analysis, including an assessment of the impact of both current and future improvements on state and institutional practices and policies. Each of these three issues and the related and secondary questions within that area, is discussed in a separate section. A final section looks at translating questions into specific analysis. An appendix contains a draft format for a simplified need analysis framework. (JB)

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Subcommittee on Need Analysis and Delivery System

Background Paper (Phase I)

November 1989

Advisory Committee on Student Financial Assistance

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Subcommittee on Need Analysis and Delivery System

Background Paper
Phase I: Background and Problem Definition

November 1989

Advisory Committee
on
Student Financial Assistance

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1.0 Introduction

The Congress and the Department of Education have made significant progress over the last five years in moving the Title IV student aid delivery system toward an effective and equitable means of providing aid to needy students. Major changes have been made to need analysis models, forms, and processes designed to ensure that the low-income, disadvantaged population in particular is well served by the system. Three improvements require special mention:

- Provision in the law for simplified need analysis and program eligibility determination for students from families with income under $15,000;
- Provision in the law for a common form for Federal programs that is processed at no cost to students or parents; and
- Modification of Federal need analysis forms used for Title IV aid to include a common core of Federal data including simplified needs test.

These three changes have resulted in greater opportunities for low-income and disadvantaged students to avail themselves of simplified need analysis in 1990-91; and, if the Department's plans come to fruition, will result in Federal need analysis at no cost for all students in 1991-92.

It is in this context that the Advisory Committee has designed its approach to supporting the Congress during reauthorization as requested in an April 1989 letter from the House Subcommittee on Postsecondary Education. Following its two most important and comprehensive legislative charges the Committee has made need analysis and delivery a primary focus. These charges include requirements to:

- "make recommendations that will result in the maintenance of access for low- and middle-income students;"
- "develop, review and comment annually on the system of need analysis;" and
- "monitor, apprise, and evaluate the effectiveness of student aid delivery and recommend improvements."

In response to these statutory charges and the Congressional request, the Subcommittee on Need Analysis and Delivery System presented to the full Committee at its August 1989 meeting an analysis plan identifying potential improvements that are consistent with Congressional intent as well as Committee direction. Consistent with this plan, work has begun in three key areas:

- Exploring the opportunities for further simplification and integration of Federal need analysis and program eligibility models;

- Assessing the feasibility of excluding certain disadvantaged subpopulations from Federal need analysis entirely--both first time and continuing students--and streamlining annual reapplication for all students; and

- Monitoring progress toward implementing simplified Federal need analysis, including an assessment of the impact of both current and future improvements on state and institutional practices and policies.

The Committee, at that meeting, also identified an overall strategy for identifying and exploring issues that the Congress should consider in its reauthorization deliberations. The Committee agreed that symposia would be used as an essential element in bringing the community together to assist the Committee in its work. Need analysis and delivery system improvements are the focus of the first symposium.

1.1 Purpose and Outline of Paper

The purposes of the paper are two-fold. For each of the areas above, the following sections: translate the Committee's broad interest into more carefully defined specific issues; and present preliminary thoughts about how the issues might be addressed.

This interim report on Phase I (Background and Problem Definition) thus serves as a briefing document for the December symposium as well as a planning document for Phase II (Identification of Feasible Alternatives).

2.0 Opportunities for Further Simplification and Integration

Over the last three months, Advisory Committee staff and consultants have identified several specific issues related to simplifying and integrating Federal need analysis and program eligibility models. They are:

- o Is there an income level below which families should be exempt from Federal need analysis and program eligibility models?
- o Can the simplified Pell model be extended to families over $15,000?
  - What are likely to be the budget and redistributive effects?
- o Can the simplified CM model be extended to families of $15,000?
  - To what income level?
  - What are likely to be the first order effects on need measurement and secondary order effects on awards, if any?
- o Is it feasible to integrate the simplified Pell and CM models into a single model for the low-income population?
  - Which model should be used as a basis?
  - What are the likely effects?

The following paragraphs define these issues and present preliminary thoughts on how each might be addressed.

2.1 Exempting Families Below a Certain Income Level from Need Analysis

The Higher Education Amendments of 1986 provide for a simplified needs tests under Pell and CM for students whose family incomes are $15,000 or less and who file an IRS 1040A or 1040EZ form. Simple need analysis primarily disregards assets in determining family contribution. At the request of the Advisory Committee, need analysis processors provided preliminary data to examine the feasibility of exempting certain income categories from undergoing Federal need analysis.

Their data demonstrate that the parents' contribution is minimal for dependent student filers whose family incomes are below $15,000. For example, CSS officials have stated that the average 1988-89 parents' contribution among 1.78 million CSS dependent student filers who qualify for the simplified needs test is $74. ACT's statistics for 1988-

89 show that the highest average parental contribution from income is $18 for families with earnings of less than $15,000 whether or not the simple or "regular" formula is used. If assets are factored in, the average parental contribution would probably not increase by more than $100 according to ACT officials. Exempting students from need analysis if they fall under a certain income level, therefore, presents a potential avenue for simplification.

CSS's paper, *Towards A Simplified And Equitable Student Aid Delivery System,* states, "Among dependent students...one might exclude from submitting financial information all filers who...have incomes below a certain level (e.g. $18,000) and submit simple tax forms." In testimony before the Advisory Committee in August 1989, CSS representatives confirmed their interest in such an approach. Although they were not prepared to make a recommendation, they did suggest that exemption under need analysis for 1040A or 1040EZ filers with incomes as high as $15,000, and perhaps even up to $20,000, is worth exploring.

2.2 Extending the $15,000 Limit for Simplified CM and Pell Models

Another potential means to achieve further simplification in need analysis is expanding the simplified Pell and CM models to income groups above the $15,000 limit now in place. However, consideration of extending simplified need analysis confronts the same concerns and perceptions as the current simple need analysis, and need analysis in general. For example, some maintain that the simplified needs test is too complex because students still must complete many data elements, although fewer than those required for the "regular" analysis. In addition, the instructions, which are lengthy, apparently confuse students about whether or not they are eligible for the simplified needs test. CSS and ACT have both expressed concerns along these lines. Nonetheless, CSS has testified before the Advisory Committee that extending the simplified needs test, as currently defined, to families with taxable incomes as high as $20,000 may be feasible.

Testing the viability of extending the income cap and determining the range to which it should be extended beyond $15,000 requires examination of some of the same issues that pertain to the exemption of certain families from need analysis based on level of income. Considerations include examining the income obtained from assets versus the income obtained from earnings, the availability of family income to independent students versus dependent students, and the appropriateness of including dependent student income as part of the income cap.

Expanding simplified need analysis to higher income groups also presents issues unique to each formula. For the Pell formula, any budgetary and redistributive effects must be taken into account because of the direct link between the results of the formula and awards of Pell Grant dollars.

For CM, the effects of raising eligibility for simplified need analysis above $15,000 on students' financial need and their awards also requires exploration to assess any redistributive effects in the other Federal financial aid funds. However, the relationship between the expected family contribution and awards under the Campus-Based and Stafford programs is less direct than the comparable contribution and awards in the Pell Grant program. Thus, examination of this relationship at selected institutions, including packaging policies, could prove fruitful as a strategy to identify redistribution effects. Moreover, if raising the cap results in only minimal differences in family contribution, it is possible that differences in awards will be negligible. At institutions where students' aggregate need exceeds available funds by large amounts, for example, changes in the family contribution probably would not significantly affect awards.

2.3 Integrating Simplified Pell and CM Models

Integration of the Pell and CM models into a single model presents a further step toward simplification. According to financial aid administrators, students and their families often are unable to understand the connection between the information they provide on the application form and the family contribution figures that result. The face validity of the process loses more ground when not one, but at least two (and possibly four) disparate family contributions are calculated. In addition, there is some anecdotal evidence that indicates students who are denied Pell Grants believe they may not be eligible for any other aid, which is often not the case.

Historically, the divergence in Pell Grant[1] and CM parental contribution figures has been attributed to the perceived purposes assigned to each model. The Pell Grant methodology has to produce an overall contribution figure called the Pell Grant Index (PGI) which consists of parental and student contributions. The Pell Grant parental contribution has been designed to target grants at the lowest income applicants. Thus, the formula has been viewed as highly progressive and contributions rise rapidly with income. The parental contribution from the Congressional Methodology, on the other hand, has been seen as more liberal than the Pell Grant methodology and is intended to act as a measure of ability. As a result, despite the fundamental similarities of the data and components in both methodologies, the formulae that drive the Pell Grant and CM methodologies vary.

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[1] The discussion in this section is based on the historical relationship between the Pell Grant Methodology and the Congressional Methodology's predecessor, the Uniform Methodology. Because of differences in the formulas relating to the student contribution, comparison of parental contribution is most relevant to this discussion.

Integration, therefore, requires resolution of issues on many levels: political, policy, technical, and community perception. Many observers will feel that inclination toward one model over the other in any attempt to integrate methodologies could lead to distortions in the current distribution of Federal student aid. Under the current system, for instance, middle-income students who do not qualify for Pell Grants may still qualify for other Title IV funds such as College Work-Study and Stafford loans.

The Pell Grant analysis, however, generally yields higher expected contributions than CM. Favoring Pell, then, could damage the ability of middle-income students to obtain these "self-help" dollars and, thus, restrict their access to postsecondary education. Conversely, favoring CM could divert Pell Grants away from extremely needy students to students who require less assistance. In this instance, access to postsecondary education for low-income students would be jeopardized. In addition, some financial aid administrators are concerned that if either methodology--but particularly Pell--dominates need analysis, it may be used as a tool to delimit funding levels in other Federal aid programs.

In assessing the feasibility of integrating the Pell and CM models, several aspects of the methodologies need to be evaluated. An analysis of structural differences responsible for producing incompatible parental contribution figures within and across models will prove useful in identifying components that can be changed to make the methodologies more similar. Another critical area for investigation is a comparison of PGIs and FCs. If, for example, the simple Pell and CM models produce similar contribution figures, integration at this level may prove most practicable and beneficial to low-income students. ED's study of the relationship between PGI and EFC may be an important contribution to the Subcommittee's analysis of the feasibility of integrating the Pell Grant and Congressional Methodologies. However, the focus on the family contribution may limit somewhat the utility of the study because of the focus on the family contribution. A comparison of parental contribution of the foumulas is needed, because the differences in the student contribution will tend to distort this comparison. An examination of the Pell Payment Schedule and institutional packaging policies also may offer a solution to integration's potential budgetary and redistributive effects.

3.0 Excluding Disadvantaged Populations From Needs Tests

The notion of exempting very poor students--both first time and repeat filers--from need analysis and program eligibility tests entirely has great intuitive appeal. However, it is important to address each of the following questions carefully:

- Which low-income, disadvantaged subpopulations currently receiving assistance under other Federal programs can be exempted from the Pell and CM models?
- How might this be feasibly implemented within the current structure of Federal delivery?
  - Would implementation affect program integrity?
- Can reapplication procedures be streamlined for these populations while ensuring program integrity? Can they be streamlined for all students?

The following discussion explains these issues and presents preliminary thoughts about how each might be addressed.

3.1 Choosing Populations For Exemption

In order to identify programs for which the recipients might be exempted from Federal need analysis, five groups of issues must be addressed carefully:

- What program benefits do current Title IV recipients who are very needy receive? What is the overlap among programs?
- What data are collected? How are important elements defined? How much do data intersect with those used in Federal student aid need analysis?
- What are the program eligibility and award rules? How similar to Federal student aid need analysis are they?
- What is the population of recipients like? Does it compare favorably with the current Title IV recipient population?
- Lastly, what are the chances that an exemption for the population will result in significant budget and redistributive effects?

The following paragraphs describe some of the major programs in which needy Title IV recipients participate. As such these programs and participants are good candidates for exemption consideration.

3.1.1 Program Participation

Based on preliminary discussions with financial aid administrators, the programs most commonly used by student aid recipients include:

- -- AFDC
- -- Food Stamps
- -- Medicaid
- -- Section 8 Housing

Each of these programs has its own system for determining eligibility (both means tests and categorical rules) and setting benefit levels. Most use income as a primary requisite for eligibility.

An examination of the implementation of categorical exemptions would require a detailed analysis of student aid recipient participation in other Federal programs. Unfortunately, such information is not readily available. However, there are some indications that large numbers of low-income student aid recipients may participate in many of these other Federal programs.

3.1.2 Program Data

One important comparison that can be made between Federal student aid and other Federal human resource programs is in the type of information collected from applicants and the methods by which it is collected. This may be of assistance in understanding where Federal student aid and these other programs intersect and diverge.

Most Federal antipoverty programs are administered by state agencies. As such, most may be applied for at the state welfare office. Applicants are generally assigned a caseworker who supplies the application and is responsible for determining eligibility. Federal regulations require that eligibility determinations for most programs be made within 45 days, though some states have laws mandating a lesser time frame, usually 30 days.

In most states, applications are designed for use in applying for AFDC, Medicaid, and Food Stamp benefits at the same time. According to one survey, the length of applications can vary considerably by state, from three pages in one state to 52 pages in another state. States with relatively short forms usually require supplemental forms

(technically not application forms) to verify the information supplied on the application. The length and complexity of applications is largely a function of state attempts to avoid Federal sanctions under QC "error rate" formulae.

Because of variations amongst states, it is difficult to generalize about the data required on application forms for other Federal human resource programs. However, in a study conducted by Shuptrine and Grant[2], state applications for AFDC, Medicaid, and Food Stamps usually require the following information:

- -- Social Security cards for all household members
- -- Pay stubs, or earning statements from employers
- -- Award letters for Social Security, SSI, VA Benefits, and Unemployment and Workmen's Compensation
- -- Federal income tax returns, bookkeeping records, and sales and expenditure records for self employed persons
- -- Proof of support or alimony payments
- -- Ban statements, checking and savings account records, and stocks and bonds
- -- Rent or mortgage payment receipts
- -- Utility receipts
- -- Proof of residency, identity, and citizenship
- -- Verification of the age of children and address
- -- Proof of absence or disability of a parent

Thus a significant amount of information is collected to determine eligibility and benefit levels in these programs. Verification of the information is handled directly by the caseworker.

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[2] Sarah C. Shuptrine and Vicki C. Grant, "Study of the AFDC/Medicaid Eligibility Process." Paper prepared for the Southern Regional Project on Infant Mortality, October 1988.

3.1.3 Eligibility Rules

AFDC Program. The AFDC program is the most common of the Federal human resource programs, providing cash benefits totalling nearly $17 billion to some 11 million individual recipients (or 3.8 million families) in 1988. The average AFDC recipient receives $127 per month in benefits, while the average family collects some $370 per month in AFDC funds.

The main purpose of the AFDC program is to enable states to provide grant aid to needy children and their families, particularly those where one parent is missing. States exercise considerable control over the program by administering it or supervising its administration. The states are responsible for defining need, setting benefit levels (the Federal government pays at least 50 percent of each state's benefit payments, depending on the state's per capita income), and establishing income or resource limits (within Federal guidelines). As such, who receives AFDC benefits, and how much they receive, can vary significantly by state. For example, the maximum AFDC grant in 1988 varied from about $120 per month in Alabama and Mississippi to more that $800 per month in Alaska.

To receive AFDC payments, a family must pass two income tests. One is a gross income test, set at 185 percent of the state's need standard for the relevant family size. The other is a counted (or net) income test which equals 100 percent of the need standard. As a general rule of thumb, most states supply AFDC benefits if gross income is at or below 50 percent of the Federal poverty level.

Under Federal law, both eligibility and benefits are determined monthly. In addition to the monthly income tests, Federal guidelines also require certain "able-bodied" recipients, including mothers with children over the age of 3, to register for work or job training. The Family Support Act of 1988 strengthened and modified these requirements, and will likely lead to changes in AFDC recipient population beginning in 1990.

The AFDC program is the primary gateway to other benefits in the Federal welfare system, meaning that qualifying for AFDC can guarantee eligibility for certain other programs (though the reverse is not true). For example, states must provide Medicaid to families which receive AFDC. Similarly, most AFDC families are also eligible for the Food Stamp program. However, since participation in other programs does not guarantee eligibility for AFDC, it is important to examine some of these other programs separately, particularly those commonly used by students.

Food Stamp Program. The Food Stamp program provides coupons redeemable for nutritional food purchases by low-income families. In 1988 the program provided approximately $12 billion in benefits to 18.7 million participants. Nearly 8 percent of

the entire U.S. population participates in the Food Stamp program. The average monthly Food Stamp benefit paid in 1988 was $50 per person and $130 per household.

The Food Stamp program is more centrally controlled by the Federal government than the AFDC program. The U.S. Department of Agriculture, e.g. defines eligibility requirements, benefit levels, and administrative rules. The Food Stamp Act requires 100 percent Federal funding of program benefits. States have the primary responsibility for day-to-day administration of the program. This includes determining eligibility, calculating benefits, and issuing Food Stamps following Federal guidelines. Most administrative costs involved in the daily administration of the program are shared equally between states and the Federal government, and the states are held liable for incorrect benefit determinations under the Food Stamp QC system. In most states, the same agency that operates the AFDC program also administers the Food Stamp program.

Eligibility for Food Stamps is determined using financial, employment and training, and categorical tests. The financial tests require monthly income and liquid assets to be below certain levels, though there are many exclusions (including most student aid) to what is counted in determining financial eligibility. The employment and training tests generally require adult applicants to be registered for work with the state welfare agency or employment service office. Postsecondary students are usually exempted from work registration requirements. The categorical tests deny eligibility to applicants who have quit their jobs, are on strike, or are not working for certain other reasons.

According to Food Stamp QC data, only about 38 percent of Food Stamp households also participate in the AFDC program. This means that millions of individual Food Stamp recipients are not found on the AFDC rolls.

Medicaid Program. Medicaid is an entitlement program that provides medical assistance to low-income persons who are aged, blind, members of families with dependent children, disabled, and certain pregnant women meeting income and resource requirements. Like the AFDC program, Medicaid allows for considerable discretion on the part of states, who administer the program. States operate within broad Federal guidelines in deciding who is covered, the type and scope of benefits offered, and the amounts to be paid for services offered. Nationally, the program provided recipient coverage to some 24 million persons in 1988 at a total cost of $55 billion.

Medicaid eligibility is primarily based on the receipt of cash benefits under the AFDC and SSI programs. Almost all recipients of AFDC are automatically covered by Medicaid. Recent legislative changes have expanded Medicaid coverage to include certain other persons regardless of whether they receive these cash benefits. Currently nearly three quarters of all Medicaid recipients receive AFDC benefits. Some elderly, poor persons are covered under both the Medicare and Medicaid programs.

Section 8 Housing Program. The Section 8 Housing program, administered by HUD, consists of several components that provide subsidies for lower income families to obtain decent, safe, and sanitary housing. HUD sets guidelines for housing projects and provides grants to public housing authorities through the states. Household based subsidies are provided through Section 8 using two components: certificates and vouchers. Certificate holders are required to occupy units whose rents are within guidelines established by HUD. Recipients of vouchers may occupy units with rents above these guidelines, provided that the voucher holder pays the difference. In 1988, there were some 2.3 million recipients of both certificates and vouchers.

To be eligible for Section 8 subsidies, applicants generally must have incomes below 80 percent of the area median income for "lower income" households. The great majority of subsidies are reserved for those with incomes below 50 percent of the area median. Recipients usually pay rent equal to 30 percent of adjusted gross income, and must reapply annually. Federal expenditures per Section 8 unit average $2,900 per year.

3.1.4 Assessing Budget and Redistributive Effects.

Before making final choices for exemption for Federal need analysis, the populations served by each of these and other programs must be examined carefully. Under the assumption that the majority of program participants who are "college age, college bound, high school graduates who apply," preliminary analysis could be performed using a sample of Title IV recipients and data on program participation. Except for AFDC, these data would have to be gathered from the sample or imputed. The analysis would focus on the budget and redistributive effects of lowering the SAI (in Pell) and family contributions (in Congressional Methodology) of current recipients to zero.

3.2 Implementing Categorical Exemptions

Once the populations who qualify for an exemption have been identified, it will be necessary and important to assess the feasibility of integrating such an exemption into the existing Title IV delivery system. The primary issues of concern include:

- o effects on existing forms and administrative processes;
- o acceptability of the exemption for purposes of state and institutional student aid; and
- o maintenance of system and data integrity.

In order to achieve its purpose, categorical exemption must be an efficient, equitable and reliable part of the current delivery system. In these regards it must compare

favorably to an income-based exclusion which even at low levels would exempt the majority of these populations from need analysis.

3.2.1 Effects on Forms and Processes

It is important to fully anticipate the possible effects on states and institutions of exempting disadvantaged populations. This includes effects on:

- o the multiple data entry system;
- o delivery of state grant programs; and
- o institutional delivery of student aid funds, including verification burden.

Alternatives for modifying application forms and processes must be carefully specified and impacts assessed.

3.2.2 Acceptability for State and Institutional Programs

Unless the exemption from Federal need analysis translates into automatic eligibility for state and institutional need based program eligibility, such an exemption may not reduce application burden on low-income disadvantaged students. The last section of this paper discusses issues associated with state and institutional acceptance of current simplified Federal need analysis and program eligibility for the neediest population. It is likely that some states and institutions will not use output from simplified Federal models, requiring rather that students complete the entire Federal core form. This suggests that exempting certain populations from Federal need analysis might meet with some resistance against use in state and institutional programs.

3.2.3 Maintenance of System and Data Integrity

It is possible that simple adjustments to forms and processes for the purposes of excluding certain populations from Federal need analysis may be open to significant fraud and abuse, or high costs and burden associated with ensuring program integrity. A careful examination of the manner in which such an exemption might be both efficiently and reliably integrated into the current system must be performed. This would include, but not necessarily be limited to, the following issues:

- o quality and accessibility of state and local program files for verification purposes;
- o types and quality of documentation that recipients of other programs typically have in their possession; and

- systems and files for matching and verification processes between ED and other agencies.

These and other issues must be carefully examined before categorical exemptions are chosen over either current simplified need analysis or an income related exemption.

3.3 Streamlining Federal Student Aid Reapplication

Another area in which opportunities for simplification arise is annual reapplication. Currently all applicants--including recipients--apply on an annual basis. Despite the fact that large numbers of applicants have existing records in the ED data base, all students must initiate a new application each year. Streamlining the annual reapplication process for recipients could produce a major reduction in burden for students and parents and possibly institutions, and may result in reduced processing costs for ED. The reduction in applicant burden is particularly attractive for two types of low-income students: students who are provided some type of streamlined initial application process (e.g., categorical exemption from need analysis), and for families using the simple need analysis.

Two primary means of streamlining reapplication can be identified: first, employing existing technologies to streamline the reapplication process; and second, changing program rules to exempt certain categories of students from annual reapplication.

Two different approaches to technological changes in reapplication that would eliminate the need to create wholely new records for reapplicants annually appear worthy of exploration. First, existing paper-based technology can be used to generate prior-year records that students reapplying would update and submit to processors. Thus, only student and family data that changed over the course of the prior academic year would need to be updated in the record. Part 2 of the existing MDE output document (formerly the SAR), which is currently used to correct mistakes or update data, could be used for this purpose.

A more technologically sophisticated approach could be developed using the Department's electronic data delivery process. Currently, several hundred institutions receive student aid records directly from the ED central processor using electronic means. This electronic network could be used to access records that could be updated electronically at the campus level. These records, updated from the current award year, could be used to determine awards for the upcoming year. The current Central Processor contract contains funds for a pilot program similar to this concept.

In addition to employing technological means to streamline reapplication, changes to legislation and program regulations can be made to exempt sub-groups from annual

reapplication. For example, low-income students or AFDC recipients could be exempted from submitting applications on an annual basis.

These examples of different approaches to streamlining or eliminating annual reapplication also suggest issues that must be addressed in considering the feasibility of alternatives, as well as implementation concerns. In evaluating the basic premises for eliminating reapplication, many issues must be considered. The frequency with which data elements change is a preliminary issue. This issue must be addressed for low-income students and the general recipient population somewhat differently. For low-income students, the issue relates to whether data in the simplified needs test change enough to materially affect awards. Further, if some low-income students are exempted from need analysis entirely (e.g., AFDC recipients), the degree to which data used to derive eligibility in other programs is relevant.

With respect to other Federal programs, it may be helpful to briefly review the rates of recidivism or long-term welfare dependency. This information may be useful for comparative purposes in deciding whether significant numbers of low-income persons have financial circumstances which change.

According to a 1988 study for the U.S. Department of Health and Human Services, 65 percent of AFDC recipients are "long-term" users of welfare assistance. Long-term was defined in the study to mean 8 or more years. By subgroup, single women averaged 9 years of AFDC receipt, while those in the less than 30 age cohort averaged between 7 and 8 years on welfare. These data would suggest that a minority of persons on welfare have financial circumstances which change significantly over time.

Data describing the characteristics of AFDC families, from the National Integrated Quality Control Systems monthly studies, further confirm this observation. Between 1969 and 1987, the percentage of AFDC families with no reported income (other than AFDC) climbed from 50.6 percent to 80.6 percent. Further, during this time period the average benefit paid declined by more than 30 percent in real terms. These data would suggest that few welfare recipients have financial circumstances which improve; indeed, there is some indication that financial conditions actually worsen for the average AFDC recipient over time. Thus, the need to make those student aid recipients who are also AFDC recipients reapply for student aid each year is doubtful.

In examining the question, the frequency with which data change for subgroups must be examined. For example, if few data elements (among the one hundred individual questions that students and parents complete) change for all applicants or certain subgroups, then these groups are likely candidates for streamlining reapplication. If high percentages of data elements change--and the resulting PGI or EFC is substantially different--then such a group initially would not appear to be a good candidate for streamlining. However, other dimensions of this issue must be considered, including the

effect on PGI or EFCs and ultimately on award. For example, several data elements may change with high frequency, but cause minimal changes in EFCs and literally no change in awards at the campus level. Thus, campus packaging policies and need gaps must also be considered.

In addition to considerations related to the frequency of change, and the impact on PGI, EFC, and award, the implications for program integrity are paramount. If such changes diminish the capability of the system to minimize error and identify fraud, alternatives must be sought. Further exemption from reapplication cannot shift the burden from applicants to institutions. Procedures that would substitute for reapplication must be evaluated carefully for institutional burden implications.

4.0 Monitoring Implementation And Assessing Impacts

Comprehensive exploration of issues related to implementation of the current simplified Federal need analysis, as well as future improvements such as raising the income cutoff or exempting disadvantaged students, involves the assessment of important impacts in state and institutional behavior. The following specific issues have been identified:

- How have forms and procedures changed?
- How will institutions respond to 1990-91 changes?
- How will states respond to the 1990-91 changes?
- What can we learn about the likely response to further simplification and integration?

4.1 Examining Changes in Forms And Processes for 1990-91

The 1986 reauthorization of the Higher Education Act implemented changes in need analysis and the delivery system. The Uniform Methodology (UM) was replaced by the Congressional Methodology (CM), a legislatively designed system for determining need. The CM is intended to be a fair and equitable method for distributing Title IV funds. A simplified needs test was also written into the CM. This simplified need analysis method was designed for students whose family income is less than $15,000.
Other changes affect the application form. In 1986 Congress wrote into law a common form which a student can use to apply for Federal aid. Historically, the Application for Federal Student Assistance (AFSA) has been processed by the Department of Education while multiple data entry processors (MDEs) processed different forms. For the 1990-91 academic year the AFSA will be processed by one of the MDE processors. In the past Federal, state, and institutional data requirements were combined, hence the "embedded" form. Now, MDE applications will have all Federal core questions separated and positioned at the beginning of the form. This creates uniformity across all MDE forms and AFSA regarding those questions required to compute eligibility for Title IV aid. This new format is intended to clearly identify the simplified needs test on all applications. With the simplified needs test being more visible to the applicant and Federal data requirements being grouped, it is likely that more students who are eligible will begin using simplified need analysis.

The implementation of the CM, simplification, and the common form may have implications for institutions and states in the delivery of aid. The Committee has received some indication that some states and institutions may require students filing the simplified needs test to supply additional data. Given this, the purpose of this section is two-fold: first, to assess the likely reactions of institutions and states to these

recent changes in the delivery system, and second, to explore reactions to potential changes such as a categorical exemption of low-income students who receive funds from other Federal human resource programs.

The interest of the Committee can best be illustrated by reviewing the various types of data elements requested on MDE forms. These forms request data organized into four parts: Federal core--simple needs test, Federal core--supplemental, MDE supplemental, and state-specific. Appendix I provides examples of data in each group.

Currently many institutions and some states require data contained in the supplemental data sections as well as the data in the Federal core. Of concern to the Committee is how institutions and states may respond to an increased number of students filling out only the simplified needs test and state-specific questions.

4.2 Assessing Likely Responses

In 1990-91 the growth in the number of students filing simplified need analysis will require adjustments in the need analysis and delivery process for states and institutions. Since the nature and distribution of these adjustments is not yet known, it is important to identify broad categories of responses as early as possible. Preliminary discussions with state agency staff and financial aid directors suggest that many states and institutions will not have a problem implementing simplified Federal need analysis.

However, some concerns were expressed and fall into general categories:

- State administrative and statutory requirements that include data not included in Federal simplified need analysis;
- Concerns about eligibility for the simplified needs test;
- Issues associated with the treatment of certain populations or data elements in Federal need analysis - both complex and simplified;
- Differences in the family contribution for some students under simplified and complex need analysis;
- Issues related to packaging and the exercise of professional judgement; and
- Issues related to the distribution of non-Federal institutional, need-based funds.

Each of these sets of issues presents a potential stumbling block in the full implementation of simplified need analysis for the low-income population.

4.2.1 State Statutory Requirements

While a comprehensive survey has yet to be performed, several states appear to be in the process of considering the use of the simplified needs test for purposes of state grants.

However, the law in at least one state, Washington, requires the inclusion of assets in determining eligibility for a state grant. Since assets are excluded from simplified need analysis, low-income students applying for a grant in Washington will be required to go beyond the simplified form. A state-by-state analysis of such statutory requirements is planned to identify other cases.

4.2.2 Eligibility for the Simplified Needs Test

In preliminary discussions with financial aid administrators, a concern arose over the ability of certain families with high assets to manipulate income and therefore, several will require all families to complete the full Pell and CM formulas. However, these concerns do not appear to take into account the criteria that limit the use of simplified need analysis. Student financial aid administrators have expressed for several years the ability of high-income families to substantially lower their income through the tax system. Although the 1986 tax reform eliminated many of the deductions that reduce taxable income, high-income families continue to have deductions available to them. The concern with regard to the simplified need analysis is that high-income families can appear to have low income (e.g., below $15,000) and qualify for the simplified needs test. The simplified needs test would potentially result in a lower family contribution, since it does not take assets into account.

The criteria for qualifying for the simplified needs test all but preclude these types of families from using this type of need analysis. One criterion requires that in order for families or individuals to qualify for the simplified needs test, they must complete an IRS form 1040A or 1040EZ or not file a tax return. These forms do not permit the same deductions as the 1040. Most families that reduce their taxable incomes substantially use IRS form 1040 with the various schedules.

Thus, concerns about the types of families that will gain inappropriately from use of the simplified needs test appear to be based on incomplete information about the criteria that qualify families for this need analysis. Approaches for informing aid administrators about these criteria should be explored.

4.2.3 Treatment of Populations and Data Elements

Also evident from discussions with financial aid administrators are several concerns about how Federal need analysis treats certain students, which lead them to advocate completing the full formula. However, many of these concerns appear to be based on broader need analysis issues. Examples include the independent student definition, the treatment of dependent student earnings and the treatment of independent students with dependents. Aid administrators felt that the current independent student definition permits many truly dependent students to qualify as dependents. Thus, they felt that the full formula would treat them more equitably because assets included in the full formula would likely increase their contribution. Dependent student earnings were also cited as a problem, because of the high taxation rate. In addition, aid administrators felt that many independent students with dependents often have substantial assets and excluding them from the formula would exacerbate the general problem with the treatment of these students in the formula. One aid administrator indicated that such students can often have EFCs under the simplified needs test that is $100 lower than under the full CM and therefore would continue to require students to complete the full form.

While these are not issues related to the difference between simplified and complex need analysis as such, they are serving to foster a climate of resistance and may cause institutions to require more data than is required under the simplified Federal needs test. These issues must be examined for possible solutions.

4.2.4 Difference in Expected Contribution

Another issue raised against simplified need analysis is that some low-income students fare better under the complex model than under the simplified model. While current data suggest these cases are in the minority, a possible response is to require or suggest all low-income students qualified for simplified need analysis to complete the supplemental Federal data. It is important therefore to examine these differences, the factors causing them, and identify solutions that eliminate the disincentive to use simplified processing.

4.2.5 Packaging and Professional Judgement

Another set of concerns raised about simplified Federal need analysis relate to the need for data to package Federal aid and exercise professional judgement. Some aid administrators suggested that the data contained in simplified need analysis are not sufficient for packaging or professional judgement. While it seems unlikely that more data are really necessary for the majority of filers under simplified need analysis who are "full need" students, the tendency to cite this issue probably suggests a tendency on the part of some institutions to instruct low-income students to complete the entire

form. It is doubtful, however, that students under $15,000 can be required to complete the entire form for either purpose. This issue requires examinations and clarification by the Department of Education.

4.2.6 Institutional Funds

Some aid administrators from institutions with significant funds of their own have stated that they will require low-income students to complete the entire form. Others have stated that they feel no need to require more data beyond the simple Federal core to administer institutional funds to the poorest of their students. An examination of what is gained, if anything, by more data would be helpful in encouraging such institutions to accept simplified Federal need analysis without additional data burdens on their low-income students.

4.3 Assessing the Response to Further Simplification and Integration

Through analysis of state and institutional data requirements we can determine whether a small number of additional data elements might, if they were included on the form, eliminate the risks for simple form filers. At several four-year public and four-year private institutions it was agreed that fewer supplementary data elements would be needed if a question regarding AFDC were included. Verification of receipt of AFDC funds could serve as an automatic trigger to show full need. It may also be possible to include other Federal assistance programs.

Other financial aid administrators noted that students are required to fill out the full form because of the GSL questions that are needed to drive the State's automated system. If questions pertaining to GSL eligibility were included, these aid administrators would have no problem accepting simplified need analysis from their students.

The financial aid director at one community college suggested that the $15,000 cutoff for eligibility to file simplified need analysis should be indexed. This amount was set three years ago and has not been adjusted for inflation. There are also regional differences in the cost of living. It was suggested that this figure be set by region and the costs associated with living in that region. A family earning $15,000 in one part of the country may be comparable to another family making $25,000 in another region.

5.0 Translating Questions into Specific Analyses

In order to plan for the next phase, and motivate the December Symposium, this section translates each of the questions in the previous sections into specific analyses to be conducted. One of the major purposes of the Symposium will be to gather preliminary analyses from community and government experts so that the work in Phase III can proceed quickly and efficiently.

5.1 Simplifying and Integrating Federal Need Analysis and Program Eligibility Models

There will be three major interrelated areas of analysis in this area:

- o Identifying alternative income levels for exemption from need analysis and assessing the impact of each.

- o Analyzing and estimating any budgetary and potential redistributive effects of raising the income cut-off for the simplified needs test over $15,000 for Pell and CM.

- o Assessing the political and empirical feasibility of integrating the Pell and CM models into one model for the low-income population for all applicants.

The following sections identify minimum analytical requirements for each analysis.

5.1.1 Exemption Based on Income

In order to test the feasibility and measure the effects of an income-based exemption from Federal need analysis, an analysis must be performed that at a minimum identifies the frequency distribution of both SAIs and EFCs and alternative income levels up to $15,000. This will allow consideration of two important dimensions of the questions: the variation by income in the percentage of applicants with zero SAI or EFC; and an assessment of the potential cumulative budgetary and redistributive impact of exempting applicants with non-zero SAI or EFC at various income levels. This analysis can be performed with a representative sample of applicants in the Department's Title IV applicant data base.

5.1.2 Raising the $15,000 Ceiling for Simplified Federal Need Analysis and Program Eligibility.

It is important to assess whether the $15,000 cut-off for simplified processing can be raised to higher levels. This involves an evaluation of the potential budget and redistributive impacts of raising the level in $1,000 increments. Separate analyses must

be performed for Pell and CM. For Pell, effects on program costs and distributions can be calculated directly. In most cases, needy students' total aid packages fall short of cost of attendance. Small changes in EFC may not alter the amount or type of package significantly, if at all. In assessing the effects of changes to the CM on awards, the relationship between changes in EFC and awards must be taken into account.

Under most circumstances EFC changes will not result in dollar-for-dollar changes to award.

Also, to the extent possible, data on reporting error from previous large-scale ED quality control studies should be incorporated into the analysis. Small average differences between results obtained under the simplified and complex models might be compared to average error rates in the data elements that lead to the differences.

5.1.3 Integrating Pell and CM Models

An analysis of integrating the Pell and CM models must take into account both empirical (budget and redistributional) effects and the equally important political effects. The components of the empirical analysis are:

- Comparison of structural differences between the models and their effects on the distributions of SAIs and EFCs by income level;
- Experimentation with changes in the treatment of individual data elements and tax rates that move the models and results closer together for various types of applicants; and
- Substitution of each alternative for both Pell and CM and assessment of probable budget and redistributive effects.

The components of the political analysis should include an evaluation of the feasibility and acceptability at the Federal, state and institution levels.

5.2 Exempting Special Disadvantaged Populations

There will be three primary interrelated sets of analyses performed in this area:

- Identifying and assessing the impact of exempting low-income, disadvantaged subpopulations receiving assistance;
- Examining the implementation of exemptions within the structure of Federal delivery; and

- o Streamlining reapplication procedures for both low- and middle-income students.

The following sections present minimum requirements for these analyses.

5.2.1 Choosing Populations

Three factors will underlie the examination of which low-income participants in other human resource programs can be efficiently exempted for Federal need analysis and eligibility determination:

- o The eligibility criteria for the program;
- o The income (and other relevant characteristics) distribution of the recipients;
- o The accessibility and quality of program data and documentation typically in the hands of recipients; and
- o The cross-program system integrity.

In general, our analysis of populations will attempt to:

- o Estimate the budget and redistributive impacts of exempting individuals with non-zero SAIs and EFCs; and
- o Minimize the chances of exempting populations with significant numbers of recipients with otherwise high SAIs and EFCs.

The best approach at this juncture appears to be an analysis of current Title IV recipients and their participation in other human resource programs. This requires analyzing existing data on program participation for a sample of Title IV recipients, if possible; alternatively such data could be gathered with the assistance of institutions that have volunteered to assist with Subcommittee activities. ED's data base can be used to identity AFDC participants; however, other databases will be required to identify recipients who participate in some of the other Federal human resource programs. For example, ED's quality control data bases may contain data on some non-taxable income sources. However, food stamps, and housing subsidies are specifically excluded from the application, therefore these data bases will not contain such data.

5.2.2 Implementing Exemptions

It is conceivable, perhaps even probable, that several programs will be identified with populations that theoretically might be exempted from Federal need analysis and program eligibility determination. However, feasibility of implementation is also an important consideration. It will be necessary to specify alternative approaches to integrating exemptions into the current Title IV delivery system. These alternatives must specify rather precisely the manner in which:

- Current Federal application forms would be modified to allow exemption;
- Data would be gathered, maintained, updated, and transmitted to users; and
- Data would be verified either on a student-by-student basis, through tape matches, or other methods.

The analysis of alternatives must take into account the impact on states, institutions, and the current MDE system. The acceptability of the exemption subsystem to these parties and corresponding need for supplementary data are primary concerns.

5.2.3 Streamlining Reapplication

Directly related to simplified Federal processing and exemption for first time filers is the issue of reapplication. In Phase III an analysis must be performed that examines alternative approaches to streamlining reapplication for three types of students:

- Students reapplying who as first time filers would have been eligible for a complete exemption for Federal need analysis and program eligibility under improvements identified in section 5.2.2;
- Students reapplying who as first-time filers qualified for and took advantage of simplified Federal processing (including students who would be brought in if the income cut-off were raised); and
- Students reapplying who as first time filers were processed under the full Federal model.

Each comprehensive reapplication alternative should address these three populations, identify improvements that can be made, and assess impacts.

5.3 Monitoring Implementation and Assessing Impacts

There will be two sets of analyses related to monitoring the progress of need analysis simplification and assessing the impact of future changes. The first deals with likely state responses; the second with likely institutional responses. The following paragraphs provide minimum specifications for these analyses.

5.3.1 State Administrative and Regulatory Requirements

A survey of states is required that identifies for each state:

- Acceptability of a Federal simplified need analysis--especially program regulations, law, philosophy of need analysis, or other data needs that make simplified need analysis difficult to use;
- Attitudes toward further simplification and integration of Federal need analysis; and
- Methods of need analysis used and any modifications to the model.

These data are necessary to monitor the progress of simplification as well as recommend improvements that might reduce obstacles to state acceptance.

5.3.2 Treatment of Populations and Data Elements

To fully understand the reactions of institutions to simplified Federal need analysis and their propensity to accept and encourage it among their students, it is necessary to analyze attitudes toward the CM in its simple and complex forms. These attitudes will be important factors in fully implementing simplified Federal need analysis. An analysis is required that examines:

- The relationship between the dependent and independent student models;
- The current definition and treatment of independent students; and
- Use of base year income for determining dependent and independent students' contribution.

While these are not issues related directly to differences between complex and simplified need analysis, they may affect the climate for expanding simplification considerably.

5.3.3 Differences in Expected Contribution

A detailed analysis of the differences in expected contribution for some students under the two models is required. Such differences can serve as a disincentive to simplified processing for even the lowest income, most disadvantaged students. Careful examination should be made of the factors that contribute to such differences, the average size of differences, and the percentage of the population affected. These analyses must be performed separately for Pell and the CM.

5.3.4 Implications for Packaging, Professional Judgement, and Delivery of Institutional Funds

Three other issues have potentially significant effects on the full implementation of simplified Federal need analysis:

- o Whether enough data are present to allow for the packaging of Federal aid;
- o Whether professional judgement allows, indeed requires, additional data beyond the simplified core; and
- o Whether the packaging and award of institutional funds necessitates much more data than those contained in the simplified Federal core.

While these issues have validity when one considers the entire range of aid applicants at an institution, it is unlikely that they apply to the low-income, disadvantaged populations who are the target of simplification. A careful assessment of the validity and desirability of these factors at the majority of institutions with small amounts of institutional aid must be made.

5.4 Summary

The issues identified in section 5.0 are crucial to a thorough assessment of the policy alternatives identified in the first phase of Subcommittee work. The Symposium will serve as a means to present preliminary analysis and to identify issues that must be explored in the next phases.

Data and analytical support will be required from the Department of Education, need analysis processors and the community. In anticipation of these requirements, the Subcommittee has solicited assistance from these parties and has nearly three dozen volunteer organizations, institutions and individuals all prepared to assist the Subcommittee in the next phases.

These analyses will result in a set of recommendations for consideration by the full Committee next summer. A report based on the Subcommittee recommendations and other activities will be forwarded to Congress in the summer of 1990.

APPENDIX 1

Federal Core: **Simplified Needs Test**

- o *Earned income*
- o *Family size*
- o *Number in college*

Supplementary

- o *Assets - Home equity*
- o *Veterans benefits*

MDE*: **Supplementary**

- o *Expected year income*
- o *Name and occupation of Father, Mother, and Stepparents or Guardian*
- o *Information regarding divorced parents*

State-Specific:**

- o *State taxable income*
- o *Driver's license number*
- o *Parents' and spouse's social security numbers*
- o *Number of years and months lived in state*
- o *Graduate of a state high school*

* Not collected on all MDE forms

** Illustrative of types of state data only. States currently require about 100 different types of data in the state-specific paragraph of MDE forms.

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